

# **PERSPECTIVE ON INDONESIAN PALM OIL PRODUCTION<sup>1)</sup>**

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## **INTRODUCTION**

1. Indonesia has scored a significant achievement on oil palm development becoming the biggest palm-oil-producing country in the world, both in plantation area and total national production of palm oil. Incredible growth was noticeable in the last three years with approximately close to a million hectare new area to reach about 6.2 millions hectares and 17.2 millions tones of crude palm oils (CPO) and its derivatives last year. It is hard to say that the country has not benefited much from this commodity with export earnings up to more than USD 12 billions in 2007.
2. Along with the fast-growing plantation area the structure of ownership is shifted from the government-owned state enterprises to private sectors and/or smallholders. At early 1970s the so-called PT Perkebunan Nusantara might have about 80% of the total area, whereas the privates sectors and smallholders have the rest. In contrast, in the last 10 years the latter occupy almost 90% of the total area of oil palm in the country. Ironically, the yield performed by smallholders (2.5 MT CPO/ha/year) is well below the averages of the other two producers (4-6 MT CPO/Ha/year).
3. Increasing prices of the commodity at the global market in conjunction with increasing petroleum price, shortage in supply of vegetable oils, and/or vast area available for development are main factors triggering the fever of oil palm growing in Indonesia. The growth is accelerated further with the issues and actions of bio-fuels by the developed countries creating almost unlimited demand of the product. Lacks of national policy on oil palm and the euphoria of democracy at local authority level have one way or another create a fast-growing development of plantations.
4. The above situation taken place in a very short time has consequently created many imbalances and trade-offs. Economically, socially, environmentally, and perhaps politically the country has been affected by the unbelievable booming of this so-

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called liquid gold commodity. In facts, many of the latest government policies were issued under high pressure imaging the panic conditions in fire-fighting of the problems. It is indeed not an easy task for the government to make appropriate allocation of land which potentially demands a significant trade-offs on livelihoods and on the environments.

## **THE POTENTIAL STRENGTH OF THE UPSTREAMS**

5. In heritage with almost all-year long full of sunshine and abundant of rainfall over a very rich volcanic-derived soils make Indonesia second to none for growing oil palm in this planet. From the agro-climatic views oil palm could be planted at all over the country. Although the economic is still questionable, planting oil palm in the drier climates theoretically is possible through the use of drought-tolerant variety and/or application of irrigation.
6. Oil palm has been familiar to Indonesian for more than 150 years. Standard operating procedures (SOP) in implementing Good Agricultural Practices (GAP) had been established by the Dutch period (in Dutch: *Vademicum*). Refinement was conducted from year to year based on research findings and field experiences. However, the booming of the commodity encourages the new planters neglected the SOP. This is the main cause of why land burning became extensive and erosion took place intensively.
7. The research and development has been somewhat successful in providing the new breeds with superior characteristics. Current planting materials available to the market have a genetic potential of productivity of 32 ton fresh fruit bunches (FFB) per hectare per annum with oil extraction rate (OER) of 24 and oil yield of 6 – 7 ton/ha/year. In reality, average attainable yield only reaches 50 – 60%. This means that yield gap is so wide and needs an effective effort to narrow the gap.
8. It is not impossible, economically and technically, to get a better attainable yield from currently existing planting area of oil palm. The key issue is how the owner behaves as a true planter, not just a windfall-profit seeker. Step-by-step land preparation must be followed and routine field management needs to be controlled firmly. Adoption of technologies in a comprehensive term should not be bargained.

## **RESPONSE OF STAKEHOLDERS ON SUSTAINABLE PALM OILS**

9. As a true planter, growers have no objection to the requirement of environmentally-safe practices to achieve sustainable palm oil production. An independent initiative driven by the consumers and producers like Roundtable on Sustainable Palm Oil (RSPO) has been promoted to achieve the sustainability in all supply-chain of oil palm. Private sectors have no problem to follow the standards of GAP, but it is not the case to the smallholders. For this particular issue, government should provide guidance and assistance to the farmers. However, all members of RSPO need time to adjust their practices according to the principles and criteria set up by the RSPO.
10. Up to a certain point, the implementation of RSPO-designed principles and criteria are creating a new problem in terms of costs and/or losses. A particular component related to high conservation value (HCV), either forests or non forests, force the planters to maintain the area as it is without any damages. This of course becomes an additional cost for the planters. Leaving the area looks un-cultivated will not be a safe choice for the planters. On the other hands, the exclusion of HCVs area will reduce the effective arable area managed by the planters.
11. Business side responses positively to the sustainable palm oil requirement. However, it should be understand clearly the nature of CPO/PKO trading and/or processing. Like most other plantation commodities, trading and processing of CPO/PKO are in bulk and they came from many sources. It is difficult to implement when not all the sources are certified for conducting sustainable practices. However, in principle they are support the efforts as long as it could be calculated in term of costs or risks.

## **WHAT GOVERNMENT MUST DO AND HOW TO DO IT**

12. Oil palm supply chain has created many benefits as well as losses. Both impacts should be considered objectively for the sake of a better life in the future of Indonesian and all people living in this globe. Employments generated from 6.2 millions hectares could reach about 6 millions lives and taken them out from poverty level. Through tax earnings, including so-controversial export taxes, the government enjoyed billions of USD per year that can not be obtained from other healthy commodity. Moreover, the government should thank to the planters who have made abandoned land became a productive one.

13. Considering the above-mentioned facts, the government should treat the palm oil producer right. Disregard the deficit of the national annual budgets, this sub-sector has to be managed properly by providing with remunerative policies and regulations. It is true that in the last two years the prices are very attractive, but it is unethical when they enjoy their hard works the government puts portals taking their rights unfairly. The private sectors and smallholders do not mind to share some of their profits to help the government out of their short funding, but it should be done fairly and still promote encouragements to the players to invest in this business.
14. What the government must do is taking this golden momentum of high prices of palm oils to set up a long term program which enable the industry competitive in global market. Any disincentives regulations, although for a short term purpose, must be avoided, particularly those which could create both economic and social disputes. Long-term program needs to be facilitated by a national level agency which will be responsible for the whole things regarding plantation businesses, from licensing to marketing. A CESS-type funding must be implemented to promote sustainability of Indonesian palm oils through replanting, rehabilitation, R & D, and promotion.

## **CONCLUDING REMARKS**

15. Indonesia faces difficult choices in setting up a policy balancing the needs of food and fuel production, forest and its function conservation, and poverty alleviation. However, with the windfall profits obtained by incredibly high vegetable oils prices, the government should take the golden momentum to determine the direction of development the best for the country. Negative promotion regarding the forest over-exploitation should be balanced with national program on land reclamation and reforestation.
16. It is timely all stakeholders of oil palm business in the country to work hand-in-hand and do the best for the people, planet, and profit. Conflicting foods versus fuels must be ended by taking all necessary actions to minimize the negative impacts both to the local people and international community. The rest of the world should also intensified their cooperation in solving the global problems, i.e. food and energy sustainability to ensure a better live in the future. **[end of document]**